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INTRODUCTION

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WHAT ARE THE APPROPRIATE ROLES and mandates for intelligence services in a world in which there is growing competition for market share and a recognition that, more than ever, there is a need for a rules-based system to govern global economic activity? To be sure, gathering economic intelligence is a key priority of any national government and its intelligence community. This community includes all the institutions of the state (of which intelligence services are but one component) that collect, analyze, and distribute information to protect and promote national economic security, whether it be information on a new market for telephone switches in China or reports of impending financial collapse in Mexico. Today, such activity has taken on an added urgency: economic strength rather than military might is becoming the barometer of a nation-state's power. Financial crises can spread across global markets in minutes and the protection of the national investment in enabling or strategic technologies becomes a growing challenge because "knowledge" is difficult to monopolize when globalization is further entrenched by advances in information technologies. At the same time, the international community is in the process of building on the last four decades of negotiations to create a more liberal and transparent international economic system so as to make progress on a set of new, more complex economic policy issues, including intellectual property, labour rights, and foreign direct investment. Such changed circumstances in the post-Cold War international system raise fundamental questions about how economic security should be conceptualized and how governments are responding.

Recent years have witnessed a number of episodes in which economic intelligence-gathering has achieved a high profile. When the U.S.-Japanese auto negotiations reached a climax in 1994, for example, working alongside the American trade negotiators were intelligence officials offering assessments of how far the Japanese side could be pressed. This followed allegations that a year earlier, during the Uruguay Round trade negotiations, the Central Intelligence Agency (CIA) had provided the Clinton administration with accounts of discussions among key members negotiating the worldwide trade accord—notably the French and the European Commission. For intelligence services the transition from a predominant focus on arms control, counter-terrorism, and political (de)stabilization in the name of national security, to one attuned to capital flows, exchange rates, the latest scientific and technological advances, and international trade and investment promotion has not been easy. Nevertheless, the political prominence of trade conflicts, whether between Japan and the United States over autos, Canada and the European Union (EU) over fisheries, or the United States and France over culture, to name just a few, has sent intelligence services an important message: focus more energy on economic security. Together these trends and incidents are significant because for the first time intelligence services realize that trade talks to protect and increase their countries' global trade and investment shares are becoming a major national security issue of the post-Cold War era.

"National security" is a nebulous term that has historically included economic security, but is more associated with the military and political dimensions of security; today, however, it refers increasingly to "national economic security" interests. This has resulted in a greater focus on the economic intelligence systems and legal regimes in place to protect and enhance national standards of living.

It is becoming more and more difficult for policy makers to promote "national" economic security as the borders of their firms are changing with the growing clout of multinationals and consortia. There is a paradox in the process of globalization, however. Although global borders between markets are disappearing, national politics and policies still matter.¹ In fact, the increased competitiveness of firms on a global scale, as they grapple for diminishing shares of world markets, has forced nation-states to reconsider the structures of their national economic intelligence systems, their domestic legal regimes, and the mandates of

their intelligence services. The present volume addresses the question of what value-added is brought by intelligence services to the objective of national economic security through either their offensive activities or their defensive actions. Such an investigation raises other questions about the correlations between and among a number of explanatory variables, including the degree of openness in a society and its capacity to share information, how national cultures affect economic competitiveness, the role of intelligence services in enhancing national economic performance, and the causal relationship between a particular combination of defensive and offensive economic intelligence capacities employed by a state and its ability to enhance national economic security. The following specific questions are raised by the contributors to this volume:

- Is there a strong correlation between an intelligence-sharing society and an economically competitive one? How is this related to the success of intelligence services in supporting national economic security? How does Canada compare with other industrialized countries in the context of such questions?
- What type of information are intelligence services best able to supply to the private sector?
- What type of information is the intelligence community best able to supply to governmental decision-makers?
- What are the costs of economic espionage?
- Using the case study of Canada, are the legal regimes in place domestically and internationally sufficiently robust to counteract the effects of economic espionage?
- From the perspective of economic theory, is there a strong or weak rationale for increasing the role of intelligence services in enhancing national economic security?

How are the intelligence services of states reacting to the changes we have been considering? In order to meet the changing needs of policy

makers, particularly in the Anglo-Saxon world, they appear to be moving from relative indifference to trade and economic matters to an increased focus on trade negotiations, macroeconomic trends, and the economic impacts of so-called cooperative security concerns, such as population migrations, international crime, communicable diseases, human rights, and environmental crises. It should also be said that such a shift in focus has helped to demonstrate their relevance in the face of budget cuts. But the adaptation is not without its difficulties. All intelligence services are having trouble adjusting to a more subtle world of trade politics, where economic competitors are also political allies, and where a far wider range of players—business leaders, bankers, and politicians concerned about domestic employment rates—are demanding to be consulted. The fundamental question for Ottawa and Washington is whether information gained from economic spying in Tokyo, Bonn, and Paris is worth risking some of their most important alliances. On the other hand, the Japanese, Germans, and the French see few inconsistencies in (and suffer fewer moral qualms about) gathering economic intelligence on each other, either openly or clandestinely, while still maintaining a broad political consensus on such matters as the value of common security arrangements and the need to liberalize global trade and investment.

This book evaluates the political, institutional, legal, and economic rationales for the involvement of intelligence services in collecting, producing, distributing, and protecting economic intelligence. It consists of four chapters written by experts on public policy, security intelligence, law, and economics that are organized around the issues and policy dilemmas facing states and firms as they devise new strategies to protect and appropriate economic intelligence. The common debate running through the analyses is the degree to which intelligence services can enhance national comparative advantage. The study's primary focus is on Canada, although it provides a comparative perspective on the experiences of France, the United States, Britain, Japan, Germany, and Russia.

The first chapter, by Evan Potter, provides a detailed description of the public sector and private sector agents and institutions that make up Canada's economic intelligence-gathering system. Potter evaluates this system's strengths and weaknesses in relation to the economic intelligence systems of a number of Canada's major competitors—Germany, Japan, and the United States. This chapter is followed by Samuel

Porteous's essay, which examines issues arising from the increased activity of Western intelligence services in protecting and pursuing their respective national economic and commercial interests. The author examines the debates surrounding the relative effectiveness of intelligence services in collecting, producing, and ultimately distributing economic intelligence to policymakers and the private sector. Anthony VanDuzer's chapter captures the dilemma faced by Canadian policymakers as they respond to the increased targeting of Canadian know-how by foreign states and their surrogates with agencies such as the Canadian Security Intelligence Service (CSIS) and the Royal Canadian Mounted Police (RCMP), whose legal mandates bind them to an almost exclusively defensive legal posture. The final chapter, by James Brander, provides an economic analysis of economic intelligence. Brander considers whether there is any reasonable economic rationale for the involvement of intelligence services in economic espionage or in economic intelligence more broadly.

CHAPTER SUMMARIES

The System of Economic Intelligence-Gathering in Canada

Evan Potter states that the end of the Cold War, increased globalization, and the integration of Canada into a North American community have all focused attention on a major paradox. Although Canada is the eighth largest trading nation and is a world leader in some high-tech industries, its share of world trade in the last two decades has dropped by 27 percent and its international competitiveness ranking has been slipping since 1989, putting its national economic security increasingly at risk. The chapter starts by explaining how and why the strategic management of economic intelligence is integral to building a competitive national economy for a new global market, and then compares Canada's economic intelligence system with the practices and systems of a number of other industrialized countries.

The analysis points to national culture as the major factor in determining the characteristics of an economic intelligence system. Potter speculates that perhaps because of Canada's shorter history as a nation, its smaller population base, its abundant resources, its greater dependence on government institutions, and a high degree of foreign

investment in its economy, Canada has not been forced by circumstances to be more effective in mobilizing national resources into a more coherent and effective system of information exchange and information management. The Canadian case study highlights wasted efforts, lack of coordination between public and private sectors, and under-utilization of Canada's vaunted multilateral networks. With regard to solutions, Potter argues that given Canada's non-corporatist and more confrontational style of national economic and political decision-making, and its generally competitive peak interest groups, there are inherent difficulties in transposing wholesale European and Japanese models onto Canada.

These structural problems are emphasized in the chapter because they lead to a disturbing conclusion: the Canadian economic intelligence-gathering system is confined to being primarily defensive, precisely at a time when competitive world markets are calling for a more offensively oriented system. Potter concludes that without a drastic perceptual change—the creation of a “grand strategy”—in the Canadian public and private sectors with regard to the importance to the bottom line of the systematic processing of economic intelligence, Canada will not see a reversal of its diminishing international competitiveness. For this reason the chapter recommends the revival of a national economic council with the full support of the federal cabinet, the creation of an “information society” through the greater use of public databases and technology consortia, and speculates on a more offensive mandate for Canada's intelligence services.

Economic and Commercial Interests and Intelligence Services

Samuel Porteous examines issues arising from the increased activity of Western intelligence services in protecting and pursuing national economic and commercial interests. Porteous makes two sets of arguments. First, he argues that there is a need for intelligence services to become more effectively integrated into the public policy process on economic matters. Such restructuring, however, raises a number of problems, including turf battles both within and between governments' economic and security intelligence bureaucracies, “quality of analysis” concerns, the future of traditional intelligence-sharing networks, and the extent to which governments should have access to private and commercial communications on the “information highway” to both protect and promote national economic security.

Porteous's second broad argument regarding the use of intelligence services to provide commercially relevant intelligence to the private sector raises a host of equally compelling questions. From a philosophical standpoint, would differing Canadian and American perceptions of the legitimacy of government involvement in the economy naturally extend to the involvement of their respective intelligence services? What role do intelligence services have in providing benefits to commercial actors, including “stateless” multinational corporations? Does economic espionage, because it is sponsored by the state (as opposed to industrial espionage), create an unfair subsidy that will support uncompetitive domestic producers at the expense of consumers and taxpayers? Or, is it legitimate to support strategic trade policy in this way, especially in a world in which national specializations often depend on technological advances?

Porteous foresees five general roles for intelligence services in protecting and pursuing economic and commercial interests in the years ahead. The first two are established and familiar, if not vigorously pursued. The final three will break new ground for many Western intelligence services directed to engage in them.

The first concerns the use of counter-intelligence to prevent foreign intelligence services or their surrogates from engaging in clandestine activities directed at economic and commercial interests. This is an intelligence service's least controversial function, and most Western services have been directed to increase activity in this area. Second, intelligence services will use their unique collection capacity to provide decision-makers with economic intelligence unavailable through other means. For example, Porteous suggests that policy makers will increasingly receive reports on the monetary and fiscal policies of the major economic players in the international system not only from their finance and international trade ministries but also from their intelligence services. Third, these services will more carefully monitor states' adherence to international economic agreements—especially intellectual property conventions—and unfair or “sharp” business practices (bribery, for instance). Fourth, so-called “special activities” designed to influence events, behaviour, or policy formulation in foreign countries, which could range from disinformation campaigns that target third country markets to covert influence on important economic decisions, will be engaged in sparingly, if at all, by most Western intelligence services. The

fifth, and possibly the most controversial role from the standpoint of the North American intelligence community, is the pursuit of commercial information and technologies for the express purpose of giving them to favoured domestic firms or consortia. Most Western powers have publicly disavowed any involvement in this activity. Finally, the author raises a caveat: there is distinction between predicting what will occur and predicting that it will be done well.

The Impact of the Legal Regime

The main purpose of Anthony VanDuzer's chapter is to examine both the possibilities and the limits of the statutory mandates of CSIS and the RCMP in relation to economic security. He specifies the gaps in the substantive legal protection, both domestically and abroad, for the Canadian private and public sectors with regard to the appropriation of information and technological data. He raises a number of key questions. How does the Canadian legal system, which includes the international obligations to which Canada is subject, define the kinds of intelligence-gathering behaviour by foreign agents that are subject to legal sanction? What is the permitted scope for CSIS and the RCMP to engage in activities intended to defeat legal and illegal economic intelligence-gathering activities? Where does the Communications Security Establishment (CSE) fit in? VanDuzer points out that one difficult aspect of this question is the extent to which CSIS may disclose information it has in order to permit government institutions or firms to defend themselves against the collection activities of foreign states.

VanDuzer concludes that although there will be more progress on the protection of intellectual property rights through Canada's participation at multilateral trade negotiations at the World Trade Organization (and perhaps also through regional agreements), more enforceable legal sanctions will discourage only the more obvious and open infringements of copyrights, patents, and trade secrets law. Such negotiations will have little ability to curtail the growing problem of economic espionage, which is by definition clandestine and therefore not subject to international "regulation." Indeed, as VanDuzer explains, the only way for Canada to "regulate" economic espionage is through the establishment of a more enforceable and less porous domestic legal framework which would require amendments to the Criminal Code and

the largely ineffectual Official Secrets Act. The chapter also considers briefly the legal environment in which Canadian government agencies would carry out the collection of economic intelligence outside of Canada for the purpose of obtaining a positive advantage for Canadian government or business. He notes that the current legal regime in Canada provides very little scope for such activities.

Finally, VanDuzer proposes changes to the legal framework governing Canada's intelligence services, by listing three options: an amendment of the CSIS Act to permit an expanded foreign intelligence-gathering function; the creation of a separate foreign intelligence agency with its own statutory mandate; or the expansion of the CSE into a foreign intelligence-gathering agency with its own statutory mandate.

The Economics of Economic Intelligence

James Brander's chapter, by means of an analysis of three general economic arguments—strategic trade policy, public good, and police—evaluates the role and effectiveness of intelligence services in protecting and providing economic intelligence. According to the strategic trade policy argument, nations might have incentives to use espionage to shift benefits from foreign to domestic firms. Viewed in this way, espionage is much like a subsidy to the latter. He concludes that such activity tends to be harmful to innovative activity as a whole. When one country gains from economic espionage, the damage done to other countries exceeds the benefit to the country that gains. This suggests that there would be a global economic gain if countries could agree not to undertake direct economic espionage.

Brander states that the difficulty in reducing economic espionage is that the roles of different countries are highly asymmetric in the international espionage "game." Most countries have relatively little to lose from industrial espionage, because their domestic firms have few secrets. The largest potential loser from economic espionage is the United States, primarily because it provides a disproportionately large share of the world's innovation and therefore has a lot to protect. The United States's vulnerability is further exacerbated because it is relatively open, both as a society and a business community. The author concludes that Canada's role is not dissimilar to that of the United States, although Canadian firms have somewhat less innovation to protect, even after

adjusting for the relative sizes of the countries, than do American firms. According to the author, it is therefore necessary for countries such as the United States and Canada to undertake more vigorous defensive espionage activities.

The public good argument provides a strong case for the existence of national and international statistical and research agencies that provide general economic information to governments and many other users. However, Brander is unconvinced that such economic intelligence can be provided by covert intelligence services.

The third argument, which Brander refers to as the "police" argument, concerns the contributions of intelligence services to the overall security of the system of voluntary exchange that underlies the efficiency of modern market economies. Most such activities—enforcing contracts, protecting private property—are carried out by the domestic justice system, including the police and courts, although the author does see an important residual role for intelligence services. In this way, the author views intelligence services as an extension of domestic police services.

The last section of Brander's chapter considers three important continuing trends in the world economy and their possible impact on intelligence services. The main point of this section is that the world is becoming a more crowded and more integrated place, in which it is increasingly difficult to distinguish between "us" and "them" on a national basis. As a result it will be more difficult for intelligence services to base their activities on an adversarial model of world affairs.

MAIN THEMES AND DEBATES

The agenda for national security strategies has changed dramatically in the last decade. Economics is coming to occupy a more prominent position in determining the capacity of Canada and other nations to maintain their relative positions in the international system. In this study the authors test and examine how the protection and promotion of economic intelligence can profoundly affect national economic and commercial interests. From the chapter outlines we can see at least seven cross-cutting themes. The first theme is that *a country's economic structure and its attitude toward government intervention in the economy are key factors influencing the role of intelligence services in the domain of economic intelligence*. The fact that there are differing "information-sharing

cultures" means that their economic intelligence systems will also differ. Potter suggests that those societies with an ease of information exchange will have more effective economic intelligence-gathering networks, including a greater tolerance for the practice of economic espionage. The question that this raises and is explored in this volume is whether, all things being equal, such societies have a competitive edge in the global economy, and whether part of this advantage lies in offensive and, where necessary, clandestine economic intelligence-gathering capacities of intelligence services. Obviously, the competitiveness of a national economy is a function of a host of variables (both qualitative and quantitative), including natural factor endowments, types of industries, levels of research and development, the skills and education of the population, and the like. Indeed, the host of variables seems to expand annually, which may mean that at some point the role of intelligence services may be included.

The second theme, related directly to the first, concerns establishing *the actual costs and benefits to national economies and of protecting and collecting economic intelligence or of failing to do so adequately*. This is the first step in assessing the true value of the intelligence community's contribution to national economic welfare. Here some of the contributors' views diverge most conspicuously. The problem as expressed in all the chapters is two-fold: first, getting an accurate sense of the damage caused by the acquisition of protected economic information, which, as Potter points out, represents only a small fraction of the total amount of economic intelligence; and, secondly, clearly distinguishing between the dollar value-added that can be provided by intelligence services as defensive institutions, that is, by protecting "their" firms from economic espionage either at home or abroad, and their roles as offensive collectors of information on behalf of private sector clients from their national jurisdictions.

A major problem is clearly the paucity of data and empirical studies. Without these, there appears to be significant reliance on anecdotal evidence, which is given great prominence through the media's reporting of spectacular incidents of economic espionage (for example, the alleged bugging of seats on Air France). Porteous reports that the General Accounting Office, the investigative arm of the U.S. Congress, had to abandon its plan to study the extent and impact of foreign government spying on American companies when it became clear that firms had

little desire to discuss this matter. That being said, Porteous goes on to conclude that despite "the obstacles to formal calculation," certain prominent American business leaders and government representatives agree that the cost of economic espionage to the U.S. economy is in the billions of dollars, with the White House Office on Science and Technology coming up with a damage estimate of over US\$100 billion annually. He cites examples of how cost-effective the CIA's efforts have been in preventing American firms from losing market shares through corrupt practices by foreign firms or governments. Thus intelligence collection to prevent the targeting of national firms is deemed both virtuous and a gain to the U.S. economy.

On the offensive side of the ledger, Porteous discusses the value of low-cost "well-directed [espionage] operations" that have saved some countries (he cites France and Russia as examples) billions of dollars in research and development costs. Apparently, the payback from just one successful French economic intelligence operation exceeded the annual budget of the French secret service itself. He also asserts that economic intelligence is not just about the acquisition of leading-edge technology. Often the simplest form of intelligence (plant layouts and bid information) pays surer and more immediate benefits than the procurement of technology. Porteous concludes that the infrastructure—such as signals intelligence technology—for the collection of protected information is already in place, and comparatively little additional investment would be required to orient some of this capability to commercial areas. He would, however, likely not see the need to create a new, fully fledged foreign intelligence agency for a country such as Canada, which VanDuzer suggests as an option. In sum, then, on the basis of his cost-benefit analysis, Porteous believes that the increased involvement of intelligence services in economic intelligence is supportable.

Brander, using simple game theory, demonstrates how governments would see the advantage of using intelligence services to acquire economic intelligence, but he contends that ultimately such economic espionage has the effect of reducing overall global welfare, although it would have immediate benefits to particular countries and firms in terms of jobs and contracts. In an ideal world if all governments were to renounce economic espionage, everyone would be better off. However, he concedes that with such different levels of economic development in the world, there will always be an incentive for some countries to cheat.

Related to the above discussion on the private sector costs and benefits is the question of the use of economic intelligence acquired by intelligence services for the purpose of improving public policy-making. Porteous contends that despite the "quality of analysis" concerns raised by some, there is growing role for intelligence services in this area. Brander, however, counters that intelligence services should not get into the business of trying to replicate the functions of national statistical agencies, ministries of economics and trade, or the many international agencies and institutions that already provide this information.

Perhaps the problem is to determine at what point intelligence services, particularly in North America, would cross the line between, on the one hand, economic counter-intelligence (say, the monitoring of only the corrupt practices of foreign firms so as to ensure a level playing field for "their" firms) and on the other hand, channelling to their private sectors *any* other commercial intelligence that comes into their possession as part of their regular duties (for example, terrorism, money-laundering, political counter-intelligence), something that may ultimately lead to offensive operations that target sensitive commercial information. For some observers, this is the slippery slope. Brander and VanDuzer can agree that intelligence services do have an important, if perhaps secondary, role in so-called "police" matters at home. And all the authors would agree that potentially they have key roles in the monitoring of corrupt practices abroad and the fulfilment of obligations by signatories to international treaties. Where there appears to be significant disagreement between Brander and the other authors (especially Porteous), however, is on the economic benefits accruing to national economies from the provision to firms of clandestinely acquired commercial information by intelligence services.

The third theme, and perhaps the most controversial issue raised by the authors, is *the clandestine appropriation by intelligence services of commercial information for distribution to individual firms or commercial sectors*. The problem here is "Who is us?" when multinationals are global webs made up of firms from many countries, with products, know-how, and factors of production such as labour and capital flowing around the world. "Who is them?" What is a domestic firm, a foreign firm? Which contributes more to national economic security and should therefore receive more direct support from the state, the domestic firm that produces most of its output outside the country or the foreign firm that

invests more locally? Indeed, does government have any business in picking winners and losers? And are strategic industries an exception?

Porteous and Brander see the benefits of the nexus of economic espionage and strategic trade policy in different ways. Here espionage is formally very similar to a subsidy to domestic firms. According to Brander, at the international level such activity tends to be harmful to innovative activity as a whole. In essence, when one country gains from economic espionage, the damage done to other countries exceeds the benefit to the country that gains. Porteous takes a more reality-based approach by pointing out that in a knowledge-based global economy, where comparative advantages can be transferred rapidly from nation to another, governments can, through properly targeted subsidies to domestic firms deemed to have strategic value, lower these firms' costs and theoretically allow them to provide more profits, and thereby benefit the country as a whole.

The provision of clandestinely acquired information to the private sector is also a fundamental issue at the heart of whether—given the resistance to state intervention in some Anglo-Saxon business cultures—North American intelligence services should be in the business of providing such information to firms or sectors. That being said, Porteous asks whether this cultural resistance has not already been broken in light of recent reports and testimony that the CIA has provided American companies with information on corrupt practices of foreign firms.

The fourth theme running throughout the book is that *Canada is not playing on a level playing field*. The fundamental question is what policy actions can realistically be taken by Ottawa and the Canadian private sector to redress this imbalance. From the legal perspective, VanDuzer notes that Canada's domestic legal framework to protect against the gathering of economic intelligence in Canada by foreign agents is not as punitive and restrictive as the legal regimes in place in France and Germany. And with regard to Canada's capacity to gather foreign economic intelligence in a clandestine fashion, as the Potter and VanDuzer chapters point out, because of CSIS's statutory mandate as a security intelligence agency (essentially a spycatcher) these limitations are obviously a handicap. Most of Canada's main economic rivals, because they have foreign intelligence agencies in addition to domestic security intelligence agencies, are active collectors of foreign economic

intelligence. They target the strategic industries of their economic rivals (who may also be political allies), and, as Potter points out, have strong private sector and public sector networks to both protect and promote national economic security through cooperation on economic intelligence-gathering.

The fifth theme concerns *whether with greater incentives to appropriate high-tech data and knowledge it is enough for countries to respond through largely defensive means*. As mentioned, all the authors agree on the intelligence community's role in a defensive counter-intelligence capacity to prevent firms from being targeted by foreign intelligence services or their surrogates. Where there is less agreement is on the offensive side. Porteous contends that while there are problems with an offensive mandate this should not be an excuse for doing nothing. He asks rhetorically whether intelligence services would know what to look for. Yet, during the Cold War they did indeed seek and appropriate militarily applicable technology. Nor is he sure that such measures as international agreements that protect intellectual property rights will constrain intelligence services from going after key technologies at the pre-patent stage. Ironically, then, all the authors see a role for intelligence services in monitoring international agreements on the one hand; on the other, these same agencies should, in certain cases, according to some contributors be expected to help their individual firms to break the spirit of, if not the actual obligations in, the very agreements to which their political masters have affixed their signatures.

In the Canadian case, it is to be noted that approximately two dozen countries operate against Canadian interests within Canada and abroad. Most of these operations are directed at economic targets. The question is whether Canada's domestic legal framework, as outlined by VanDuzer, and the existing, but limited, foreign intelligence-gathering capacities of CSIS and the CSE are sufficient to negate the advantages of the more offensively-oriented economic intelligence-gathering activities of its major competitors. As Potter points out in his overviews of the intelligence mandates of some of Canada's major allies, apart from in the United States, such debates over the balance between domestic legal regimes and the need for offensive capacity hardly exist in Japan and some continental European countries.

Do the debatable benefits of offensive intelligence-gathering capacities and the larger defensive benefits justify increasing overall

intelligence budgets or creating separate foreign intelligence services in countries such as Canada that now have largely defensive intelligence mandates? As Brander says, "An empirical judgment must be made ... whether economic counter-espionage has sufficiently low costs and sufficiently high benefits that it is worth doing." The same can be said about offensive economic espionage. Again, the problem with making such empirical judgments is that savings (or prevented thefts) are difficult to quantify. Finally, such an issue may never reach the stage of serious public policy debate: how does a government justify rolling back the welfare state while at the same time enlarging its intelligence community?²

The sixth theme is *the shift to more cooperative relations between the intelligence service and the private sector since the end of the Cold War*. The Potter, Porteous, and VanDuzer chapters suggest that the American and Canadian intelligence services—but particularly the latter—need to become more aggressive and outward-oriented. Policy makers and business communities in the United States and Canada accept that their respective intelligence services should be focused more on preventive foreign economic intelligence activities such as reporting on "sharp" business practices by foreign companies. However, there is as yet no consensus between the business and government communities nor within them about the highly sensitive issue of whether the intelligence services should use clandestine means to influence external economic developments (such as exchange rates and international trade negotiations), and the profitability of individual firms.

Yet there is clearly a concern. Porteous and VanDuzer refer to the recent amendments to intelligence service legislation and executive branch statements in the United States and Britain to demonstrate that governments are continually trying to incorporate a clearer role for the defensive and offensive uses of economic intelligence. With regard to Canada, VanDuzer spends a considerable part of his chapter discussing the "economic" provisions of the CSIS Act and the Criminal Code, and concludes that there is currently significant ambiguity in the Canadian legislation and that Ottawa may wish to incorporate the type of economic provisions in its enabling legislation that have been completed or are being seriously contemplated in the United States and Britain.

The final theme, highlighted by the Potter and Porteous chapters, is *the philosophical differences between the Anglo-Saxon world and other*

countries on the legitimate use of intelligence agencies in increasing economic competitiveness. For some nations—notably the continental Europeans, Japan, and Russia—the use of intelligence services to actively protect and promote economic security is "old hat"; for others, such as Canada and the United States, turning the sights of their respective intelligence services to commercial matters has proved to be more difficult.

Basically, those who advocate a more aggressive foreign economic intelligence mandate for North American intelligence services ask why, if they are willing to do dirty tricks for the defense of traditional conceptions of national security, they are not also able to do dirty tricks for economic gain. On the other side, those more sceptical about the benefits of this orientation ask whether intelligence services should risk the lives of their agents for the sake of private companies, some of which could be majority-owned by foreigners. This is a particularly apt observation in the context of the Canadian economy, where more than half of the country's largest firms (in terms of assets and total sales) are subsidiaries of foreign—primarily U.S.—multinationals, and where the largest Canadian majority-owned firms, such as Northern Telecom, produce most of their sales and benefits abroad.

In short, then, the question is whether North American intelligence services should get into the business of industrial espionage. For those philosophically opposed to allowing a government to spy on behalf of its private sector, the solution to the protection side of the economic intelligence equation appears to be more aggressive counter-intelligence programs and domestic and international legal frameworks to protect commercially sensitive information.

The chapters in this book make clear that there are strong correlations between the collective attitude in nations toward the sharing of information, the domestic legal frameworks in place with regard to the defensive mandates and roles of intelligence services, and the leeway afforded to these services with regard to the collection of foreign economic intelligence both at home and abroad. Those societies that have greater state intervention in the economy and greater public-private information sharing will be more likely to have intelligence services that actively engage in offensive economic intelligence-gathering—including economic espionage. Therefore, in light of these conditions, the attempt to create a significant increase in the foreign economic intelligence-gathering capacity of certain countries—especially in the Anglo-Saxon world, which lacks a history of corporatist political structures, where

state intervention in the domestic economy is less prevalent, and where as a result there is less direct information exchange between the public and private sectors—may prove stillborn.

Nevertheless, the intelligence services in the Anglo-Saxon countries can be made more effective in providing their political leaderships and senior bureaucratic levels with strategic information on economic trends and the trade negotiating positions of competitors, or reporting on corrupt business practices. As well, there is increased scope for Canadian and American intelligence services to increase their defensive operations to counter economic espionage by other states. In terms of offensive strategies, it appears that the North American intelligence services now also have more room for manoeuvre to expand their economic intelligence-gathering abroad—but only insofar as it creates a level playing field for their firms in the international market by making sure that all parties adhere to internationally accepted trade rules and practices. However, the American and Canadian intelligence services may be far more prone to failure in supplying commercial intelligence to their respective national business communities and in rewriting their statutes to reduce significantly the targeting of their economies by foreign states and their surrogates. The most problematic issue for the North American intelligence services remains the use of intelligence services (personnel and technology) as a direct means to expand market shares of individual firms and thus national economic growth.

In conclusion, there are four major challenges for Canadian policymakers as they attempt both to defend and to promote Canada's economic and commercial interests in a global economy characterized by "cooperative competition" at its best and "covert economic warfare" at its worst. The first is the creation of an information culture in Canada in which there is a comprehensive effort to manage and exchange strategic information or economic intelligence among the private, the public, and the non-profit sectors. There must be a collective acceptance that the renewal of industrial capacity, of full employment, and of Canada's national competitiveness is contingent on the circulation of information, which may require the creation of a central clearing house of scientific and economic intelligence.

The second challenge is to gain support at the highest political level for such an "information society" in Canada. The Cabinet must collectively accept that the inefficient and uncoordinated manner in which

economic intelligence is currently collected, distributed and, when needed, protected, is doing possibly billions of dollars of damage to the Canadian economy annually.

Third, given the general consensus that the "old ways" of responding to the international economy are no longer optimal, the challenge is for the Canadian government to decide whether more efforts and resources should be directed to protecting Canada's economic and commercial interests from targeting by foreign states and their surrogates, or whether there should be more emphasis by the Canadian government on expanding market share abroad by open and clandestine means. Indeed, the protection and promotion of economic intelligence are two sides of the same national economic security coin.

The last major challenge is the means by which Canada will respond to the third challenge: to what extent should the domestic legal framework in Canada be changed to provide increased protection for proprietary information, if it needs to be changed at all? And what overhaul is necessary and feasible in Canada's intelligence community, with specific reference to the increasing role of its intelligence services in the protection and promotion of commercial and economic interests?

All the contributors to this volume would agree that economic security is a broad goal sought by all governments. They would also agree that the intelligence community's role in achieving this goal is secondary to that of the private sector and other government departments, who have purely economic and trade mandates. Yet, as recent legislative changes in the United States, Britain, and Australia indicate, the secondary nature of the intelligence community's role does not render it unimportant. As the international system moves from geopolitics to geoeconomics, the influence of the intelligence communities on the international economic system and on microeconomic interests remains uncertain. What is certain is that for many countries, from the last superpower to the old and emerging middle powers, intelligence services are going to be asked to be more active in warning of threats to national economic interests and in identifying opportunities to advance these interests.

NOTES

1. Michael Hart, "A Multilateral Agreement on Foreign direct Investment: Why Now?" Occasional Paper No. 37 (Ottawa: Centre for Trade Policy and Law, Carleton University, 1996) mimeo, 7.
2. An exception in the Canadian case is Alistair S. Hensler, "Creating a Canadian Foreign Intelligence Service," *Canadian Foreign Policy* 3, 3 (Winter 1995-96), 15-35. On the budgetary impact on CSIS see Reg Whitaker, "Security and Intelligence in a Cold Climate," in Gene Swimmer, ed., *How Ottawa Spends 1996-97: Life Under the Knife* (Ottawa: Carleton University Press, 1996), 409-41.